



Vodafone UK: Summary Report

The Power of Productivity

An assessment of UK Firms and Factors Contributing to Productivity Enhancement
Produced by Dr Alexander Grous, London School of Economics and Political Science

Currently, much is being discussed about the UK's productivity challenge and how we can unlock new avenues for growth across the country. The UK's dilemma of lagging productivity compared to other countries is often referred to as a 'productivity puzzle' because of the complexities of solving the situation. The Power of Productivity report produced by the London School of Economics was commissioned by Vodafone UK to look at the levers that are driving increased productivity in businesses and public services. This report provides a summary of some of the findings from the paper – a full copy of the study can be downloaded from <http://www.lse.ac.uk/consulting>

Key takeaways:

- The study proposes that there is an opportunity to help close the productivity gap by focusing on organisations at a granular level.
- The report provides a starting point for identifying how the power of productivity can be unlocked in an organisation regardless of its location by focusing on three key levers: **management practices**, how **technology** is used and **workforce flexibility**.
- Findings suggest that the key to unlocking productivity already exists within organisations while the tools to enable better practices, technology adoption and flexible workforce engagement are all readily available.
- However, finding the key requires leaders taking some simple steps to properly assess themselves and their business's readiness for change: and then being prepared to act on the results using the tools available.



Qualitative research study:

The Power of Productivity report was written by Dr. Alexander Grous from the London School of Economics (LSE) using data gathered from a range of sources including:

- Office for National Statistics (ONS) data as of July-November 2016
- A decade of leading research by LSE with McKinsey & Company, Stanford University and other partners involving more than 20,000 interviews with firm managers in 35 countries
- Published studies and research on the adoption of business technology and flexible working

The report examines:

Productivity variance across the UK and internationally:

- At an international level, the UK has lower productivity than all the G7 countries, with the exception of Japan. It has ranked second-lowest for GDP per-hour-worked and productivity growth since 2007.
- Productivity in the UK varies between and within regions.
- At a more granular level, most sub-areas of the South of England performed higher than average, especially Berkshire, East Surrey, West Surrey, Buckinghamshire CC, Milton Keynes and North Hampshire.
- Elsewhere, performance is scattered: Aberdeen performs 17 per cent higher than the national average. Bristol, Derby, Edinburgh, Solihull, South Ayrshire, and South Nottinghamshire each perform better than average. That said, nearly all major cities show productivity growth, notwithstanding their overall position in productivity league tables. London leads again with 28 per cent growth over the 2009-14 period. It is followed by Bristol (18 per cent), Newcastle (17 per cent) and Edinburgh (8 per cent). Belfast was the most productive city in Northern Ireland which displayed productivity levels of 8% lower than the UK average.

Measuring productivity:

- Productivity is a measure of how effectively resources are used by organisations. It's a key driver of economic growth and competitiveness. Raising standards of living largely depends on raising output per worker.
- Being able to extract and protect value from resources and assets, while optimising efficiency and costs is critical to performance.
- Labour productivity, in particular, is one of the most widely used modes of productivity measurement. With labour costs comprising around two-thirds of the overall cost of production of UK economic output, this measure is an important indicator of economic performance. For labour, productivity can be measured by dividing the Gross Value Added through a piece of work by the total man-hours taken to produce it.



Contributing factors:

- Some geographical factors do have a bearing on business success with already successful areas tending to attract more businesses and the most able potential employees due to: shorter commutes; better transport connections; access to large pools of appropriately educated and/or experienced staff; the presence of similar businesses allowing the formation of clusters; and easier access to finance.
- However, the study contends that three geographically-agnostic factors are of significant importance to a firm's performance and, if incorporated effectively and in unison, can provide a blueprint for almost any firm to become more productive.

Unlocking the power of productivity

The LSE report highlights three levers that have the ability to increase business productivity by as much 20%:

1. Management practices

- Adopting best practices for the management of a firm is almost certainly the most influential and accessible means of improving its productivity and positioning it for long-term success.
- While good management can encompass a wide variety of skills and activities, LSE research suggests there are four aspects to the way firms are run:
 - Operations management: Adoption of modern/lean practices, such as Just-In-Time, automation, flexible manpower, as and when they help meet business objectives.
 - Performance monitoring: Identifying and correcting problems and tracking performance through continuous, everyday review – and then ensuring that working solutions are carried through effectively.
 - Target setting: Financial and non-financial targets are set and communicated effectively. They need to be tough but achievable, with short-term goals – for individuals and departments – adding up to longer term achievements for the firm.
 - Talent management: The firm must work hard to attract the top talent, then appraises and rewards its people to ensure those people stay. And it must deal swiftly with people who are not achieving the goals set for them through goal-setting, training or repositioning.
- Adopting these practices has been confirmed to produce extremely positive results. Companies studied by the LSE which improved their practices achieved an increase in output of 10 per cent, product defects were reduced by 50 per cent and inventory reduced by 20 per cent. Companies which improve their practices by one point in the review of their operations can achieve 23 per cent higher productivity.



2. ICT adoption

- Improved use of ICT can allow organisations to become or remain profitable, exploit their intellectual property and empower their employees to use technology 'on the move' or with greater functionality than in the past.
- The LSE's report highlights research which shows that four-fifths of organisations believe that digital transformation will be critical to their organisation within two years, and 90 per cent of employees believe it represents the correct approach.
- The key to maximising the power of ICT is in **how** it is deployed. ICT adopted intensively alongside best management practices can achieve, up to, a 20 per cent uplift in productivity; alongside poor practices that yield only a two per cent rise.
- Mobile broadband continues to be the most disruptive use of ICT for the modern workforce.
- Superfast broadband is an additional enabler of productivity improvements through ICT. This sees a wide variety of uses across business, with the top five being (in order of use): email; web access, purchasing; banking; and company websites. Newer and more sophisticated uses of this resource, such as VOIP and video conferencing, are currently untapped by most businesses.
- For large organisations, continued investment in ICT is being driven by quite advanced requirements: secure communications (95 per cent); integration of applications with enterprise infrastructure (88 per cent); and single device access (85 per cent) among others.
- However, SMEs are frequently in a very different place to large organisations and many are still only just getting started with using technology to transform their operations: 85 per cent are concerned about getting the right advice; 82 per cent about selecting appropriate hardware to futureproof the business; and 71 per cent with how they will ensure ongoing support for mobile connectivity.
- Research also shows that over 70 per cent of British managers believed that ICT could help them deliver higher quality products and services, along with superior customer service, around 50 per cent also believed that they wouldn't be able to address key challenges around their adoption in the next five years.
- Firms often fail to adopt readily available and cost-effective ICT measures for two main reasons:
 - Most firm managers (75 per cent), especially in SMEs, are not sufficiently aware of the technology options available to them that can produce productivity benefits;
 - Among managers who are aware of some options, two-thirds don't know where to turn to for assistance, believing 'expensive consultants' or hiring an IT manager would be necessary: neither of which are realistic for the owners of most small businesses.

3. Flexible workforce

- Social changes (such as more dual-career families and single-parent families) have precipitated a struggle for work-life balance. At the same time, the maturity of mobile and broadband services has made us more connected and contactable than



ever, anywhere. In addition, with the pressure on talent recruitment, attraction and retention strategies must consider the needs of a multi-generational workforce. It currently costs £30,000 to replace the average UK worker, adding up to £4.13 billion every year across the UK.

- This combination has compelled many businesses to offer employees flexible working practices. From research, employees say that flexible working makes them: more productive (78 per cent); suffer fewer distractions (80 per cent); work longer (85 per cent) as often it means they have no commute; and attain a better work-life balance (95 per cent).
- Objections from employers to adopting such practices are chiefly around security (90 per cent); the technology requirements to support employees (88 per cent); distrust that employees would be working while elsewhere (80 per cent); and the difficulty in having such employees attend meetings (68 per cent).
- Reduced absenteeism is a further benefit due to employee happiness, work-life balance and job satisfaction. And so is staff-retention, also aided by these outputs.
- Perhaps counter-intuitively, teamwork was reported to have improved in 61 per cent of US organisations that had adopted flexible working. Employees in 77 per cent of these organisations also indicated that morale had improved.
- Facilitating flexible working practises that work well for organisations requires the effective marriage of our other two themes for increased productivity: best practice from management and ICT adoption.

The three levers of productivity

- Maximising the power of productivity requires alignment between all of these components: management practices, technology and flexible working.
- Location can provide additional factors for consideration at the regional level but ultimately, research confirms that productivity enhancement must start with how things are done to identify opportunities for optimisation.
- The key to unlocking the power of productivity may be less of a key and more of combination number.

Key considerations for enterprises

- Adopting best practices in management and technology use should not be left to 'crisis' scenarios or when economic or other pressures occur.
- Organisations need to periodically re-structure and re-align to respond to market changes. The time to act is now.
- Firms that are already assessing their performance, their environment and forecasting the future are proven to be those with the highest potential to thrive.



Additional resources for business leaders looking at strategies for change:

- LSE – [Power of Productivity Paper](#): provides an overview of management areas to review and ICT/flexible working approaches. It also highlights a [management tool](#) for benchmarking your organisation.
- Vodafone [Better Ways of Working transformation programme](#) for SME and large enterprises
- Vodafone UK online business assessment tool for small and mid-sized businesses: [Ready Business Indicator](#)
- Vodafone [Flexible Working Guide](#) – A practical guide to building a game-changing flexible working strategy
- Vodafone Insights - Industry [Perspectives](#) papers explore the challenges facing UK organisations and how businesses can respond. These reports bring together research and a rich blend of wider expert perspectives to give business leaders a balanced but comprehensive opinion around the changing business landscape

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About Vodafone UK

Vodafone is one of the world's largest telecommunications companies and has mobile operations in 26 countries, partners with mobile networks in 52 more, and fixed broadband operations in 17 markets.

Vodafone UK has worked with UK businesses for over 30 years, starting out as a mobile provider and becoming one of the UK's leading total communications providers. It provides a range of voice and data services, secure communications infrastructure, fixed and call centre capabilities, unified communications, cloud and hosting and Internet of Things solutions and was the first mobile phone operator to offer a truly converged service for fixed and mobile. For more information please visit www.vodafone.co.uk

About LSE

The London School of Economics and Political Science (LSE) is one of the foremost social science universities in the world. LSE is a specialist university with an international intake and a global reach. Its research and teaching span the full breadth of the social sciences, from economics, politics and law to sociology, anthropology, accounting and finance. Founded in 1895, the School has an outstanding reputation for academic excellence. Sixteen Nobel Prize winners have been LSE staff or alumni. The School has a cosmopolitan student body, with around 9,500 full time students from 140 countries. LSE has over 3,000 staff, with about 46 per cent drawn from countries outside the UK.